

Monetary Aggregation: A Survey of Major Issues and Evidences

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The objective of the paper is to highlight the basic features of the theoretical and empirical approaches to money definition and bring together evidences drawn from the previous works. Accordingly, the various approaches to weighted monetary aggregates are discussed in detail and a critical evaluation of all the approaches presented. Studies focusing on financial innovations and Divisia monetary aggregates, and those in the Indian context are also reviewed.

"Much ingenuity has been spent upon attempts to define the term money...All such attempts at definition seem to me to involve the logical blunder of supposing that we may, by settling the meaning of a single word, avoid all the complex differences and various conditions of many things, each requiring its own definition."

----William Stanley Jevons
Money and the Mechanism of Exchange.

I. Why Monetary Aggregation?

The debate on "What is money?" started with the advocates of the theoretical approach who emphasized on a particular function of money and accordingly identified the real world entities to be called "money". Prominent among the advocates includes Fisher (1911), Yeager (1968), Johnson (1971), and Tobin (1980). Though the medium of exchange function of money was given universal importance, the disagreement continued due to the different emphases put forth on the functions of money. The ambiguities inherent in this school of thought coupled with the emergence of additional money market instruments possessing money like characteristics gave a different angle to the debate on money definition, leading to a search for an empirically identifiable money. The idea behind the empirical approach was to evolve certain policy criteria on the basis of which one could quantify the total money stock in the economy. In this context one may refer to the Friedman-Meiselman dual criteria (1963) and the stable money demand function criteria (Rose, 1985; Gordon, 1984) etc... The Radcliffe committee in the United Kingdom and Gurley and Shaw in the United States pointed out the difficulties in drawing a line between money and other money like assets considering them close substitutes of money. However, in the later period, studies by Chetty (1969), Boughton (1981), and Husted-Rush (1984) evidenced empirically low substitution between money and money like substitutes. Thus, no policy criterion could provide a unique definition

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